

INFORMED BUDGETEER

A DO-IT-YOURSELF PRIMER  
TO PROVE CLINTON WANTS TO EXPAND THE  
FEDERAL GOVERNMENT BY \$150 BILLION

- First, you need a copy of the President’s 1999 budget documents. Take the main Budget volume and turn to Table S-2, Summary of Budget Proposals, on page 342. To figure out the true cost of the “Funds for America” initiative, take the subtotal for spending (\$380.0 billion) and subtract the transfers within the discretionary caps (-\$323.8 billion) which should give you the additional proposed spending (\$56.2 billion).
- Then turn to the Analytical Perspectives volume, Chapter 4, User Fees and Other Collections. Table 4-2 on page 82 shows all of the user fee proposals included in the President’s budget.
- The first part of the table lists collections that are credited against the discretionary caps and would therefore allow an additional \$10.2 billion in domestic spending. (That figure is found about 2/3rds down the table on the line “Total discretionary user fee proposals.”)
- Back to Table S-2, take the mandatory spending subtotal (under “Other proposals”) and subtract the \$6.9 billion that is already counted in Funds for America, which gives you \$57.7 billion.
- Finally, turn to the second page of S-6, Effects of Proposals on Receipts (page 352 in the main Budget document). The second line on the table is the subtotal for “tax relief and extend expiring provisions,” \$24.2 billion.
- These four items add up to \$148.3 billion, which, as we say in this business, is close enough for government work.

\$150 BILLION IN CLINTON EXPANSIONS (\$ in Billions)						
	1999	2000	2001	2002	2003	Total
Funds for America	5.8	9.3	10.5	15.6	15.0	56.2
Spending -User fees	1.7	2.1	2.1	2.1	2.2	10.2
Total Discretionary	7.5	11.4	12.6	17.7	17.2	66.4
Mandatory Spending	6.1	8.6	11.1	12.2	19.7	57.7
Tax Expenditures	3.2	5.1	5.5	5.0	5.4	24.2
TOTAL	16.8	25.1	29.2	34.9	42.3	148.3

LAST YEAR’S REVENUE SURPRISE

- In the last 4 years, revenue growth has outstripped GDP growth by more than 2%, boosting the ratio of federal revenues to GDP to a post-1945 record of 19.8%.
- 1997 revenue growth was particularly strong, with actual revenues coming in roughly \$70 billion above both CBO’s and OMB’s January 1997 projections. CBO’s “The Economic and Budget Outlook: Fiscal Years 1999-2008” provides a comprehensive review of the sources of this “revenue surprise”.
- As per CBO’s report, 85% of the 1997 surprise stemmed from individual income tax receipts, both withheld and non-withheld. Corporate profits and social insurance taxes accounted for only 4% and 7% of the surprise, respectively.
- Although 1997 tax data will not be processed until the end of this year, the strength in 1997 individual income tax receipts likely derived from three sources: 1) stronger than expected growth in personal income due to the robust economy, 2) unusually high capital gains realizations and 3) a rise in the effective tax rate. The latter two factors caused individual receipts to rise at twice the rate as personal income growth.
- Capital gains realizations rose by 45% in 1996, the second highest yearly rise on record. Since taxes are paid with a lag, this boosted

- 1997 receipts. Preliminary IRS data indicates that most of last year’s \$25 billion April surprise was related to capital gains.
- Capital gains revenues should not be as impressive in FY1998 and FY1999. CBO believes that capital gains realizations grew by roughly 45 percent again in 1997, due to the stock market’s strength and an “un-locking effect” due to last year’s capital gains tax rate reductions. Yet, given the reduction in rates, CBO expects that FY1998 capital gains revenues will rise by only 7 percent. By 1998, CBO expects capital gains realizations to decline, which will contribute to slower FY1999 revenue growth.
  - However, it is important to realize the sensitivity of the budget deficit to changes in anticipated capital gains realizations -- if 1997 realizations were to grow by 65 percent or 25 percent, CBO’s FY1998 deficit would be \$10 billion higher or lower respectively.
  - The effective tax rate also likely rose in 1997, as the share of income accruing to high-income taxpayers increased slightly. It is important to note that incomes rose across the board -- it’s just that growth was fastest amongst upper income individuals.
  - Based on continued economic strength and the fact that some of the factors behind FY1997’s revenues surge are likely to persist for a bit longer, CBO has raised their projection for 1998 and 1999 revenues by roughly \$30 billion a year from their September projection.
  - The Senate Budget Committee will be holding a hearing on February 10th to further discuss the factors behind FY1997’s revenue surge and their likely staying power during the budget window.
- BUDGET IMPLICATIONS OF IMF APPROPRIATIONS**
- On Tuesday, February 2, the President submitted to Congress a FY 1998 supplemental appropriations request -- \$14.5 billion for IMF quota increase and \$3.4 billion for New Arrangements to Borrow. The Senate will likely consider this request in March.
  - The IMF’s New Arrangements to Borrow (NAB) and the U.S. Quota increase are 2 different sources of IMF funds, but are treated identically in the Congressional budget process.
  - Under current practices, the budget treats contributions to the IMF as **budget authority only**. The budget does not show an outlay impact associated with these contributions, and as a result, contributions to the IMF do not result in outlays or affect the budget deficit (or surplus).
  - From 1947 to the late 1960’s, U.S. contributions to the IMF were treated as outlays. In 1967, the President’s Commission on Budget Concepts recommended that IMF contributions be treated as non-budgetary transactions. The rationale was that contributions to the IMF represented an exchange of assets and not a an expenditure on behalf of the U.S.
  - The 1967 Commission’s recommendation was followed until 1981. In the 1981 budget process, both Appropriations Committees insisted that the quota increase be provided in an appropriations act and recorded as budget authority. Since 1980, contributions to the IMF have been scored as budget authority with no associated outlays. Outlays are displayed in the programming and financing schedules of the Treasury only in those instances in which the dollar value of the US quota changes due to exchange rate fluctuations.
  - In 1990, Congress set statutory limits on discretionary spending. Congress recognized the unique nature of IMF contributions and provided an adjustment to these limits for IMF contributions. The 1997 Balanced Budget Act, which extended discretionary spending limits through 2002, extended the cap adjustment for contributions to the IMF through 2002.

- **Bipartisan Budget Agreement and the IMF:** Public Law 105-33, the Balanced Budget Agreement of 1997 specifically addresses the IMF funding until 2002 and effectively allows legislation that provides an increase in U.S. contributions to the IMF to not need an offset the budget authority.
- The law provides a procedure to adjust the discretionary spending caps, the budget resolution’s section 302(a) allocations, and the budget resolution’s budgetary aggregates for legislation providing an increase in the US Quota or the NAB. The adjustment only is restricted to budget authority and can only be made for legislation providing for the NAB or IMF Quota increase.
- **The Financial Transactions of the Treasury and IMF:** When an appropriation is made for the US contribution to the IMF, it is not a fixed appropriation but the maximum level the US may commit to provide. The bulk of the appropriation involves a letter of credit issued by the Treasury that the IMF draws down as needed. The remainder is paid in the form of reserve assets.
- Of the current total \$35.5 billion quota of the IMF, about \$18 billion still remains to be drawn down. The US claims on the IMF can be drawdown, if needed, to obtain foreign reserves.
- When the US provides funds to the IMF, the Treasury transfers one monetary asset (dollars) to the Fund in exchange for another monetary asset (Special Drawing Rights, or SDRs) equivalent to the increase in the US reserve position at the Fund. Like a bank deposit, the reserve earns interest and can be withdrawn virtually on demand.
- The IMF only draws on quotas from countries that are strong enough to provide credits. This assessment is made quarterly and referred to as the *operational budget* of the IMF. Currently 30 countries make up the operational budget and the US contributes 20% relative to the US’s 18% share of total quotas. **The IMF’s liquidity is then based on the quotas of those countries seen as financially strong for that quarter.**
- It is important to note that there are many countries with their international reserve assets at the IMF and there must always be enough liquidity at the IMF to meet possible withdrawals--operating under many of the same basic liquidity principles of a commercial bank. Again, this further explains the practice that no budget outlays are scored.
- **General Arrangements to Borrow:** Treasury treats the GAB differently from the Quota. Since the GAB is an emergency reserve, it is only lent to the IMF under certain conditions: 1) a liquidity crisis at the IMF, and 2) a threat to the stability of the international monetary system exists. Decisions to mobilize the GAB require approval by 3/5 of the 11 contributors and 2/3 of the weighted participants of the GAB. Therefore, funds are not provided until activated; this last occurred in 1978 (a country with a higher contribution has veto power, currently this is only the US.) There is no letter of credit held by Treasury.
- **Could the IMF Default?:** The resources the US makes available to the IMF are **claims on the IMF not on the countries to which the IMF lends.**
- An IMF default could only occur if, at liquidation of the IMF, a member with outstanding loans failed to repay and the IMF’s remaining assets were insufficient to meet the IMF’s liquid liabilities (i.e. the reserve claims of members). However, the IMF has substantial currency reserves and retains 103 million ounces of gold as a reserve which could be tapped to meet any residual claims.
- Most economists agree that the prospects of an IMF default are negligible. No country has ever defaulted on its IMF loans, arrears on IMF loans are modest, and gold and currency reserves substantially exceed any foreseeable losses in the event of liquidation.

- **Difference from the US Savings and Loan Crisis:** Some in Congress have argued that the IMF is putting the US taxpayer at risk similarly to the US savings and loan crisis. There is one stark difference: savings and loan institutions held a US government guarantee--with the IMF, there is no US guarantee in times of default. The maximum exposure to the US government and taxpayer is equal to the appropriation.

CALENDAR

Senate Budget Committee Hearing Schedule

February 9: Education Task Force Field Hearing: State & Local Initiatives: Engines for Change. Witnesses: Lamar Alexander, Former U.S. Secretary of Education; Jane Walters, Commissioner, Tennessee Department of Education; Judy Beasley, Vice-President, Tennessee Education Association; Dr. Susan Gendrich-Cameron, Principal, Cason Lane Academy; Dr. James Guthrie, Director, Peabody Center for Education, Vanderbilt University; Mr. Randle Richardson, President & CEO, Community Education Partners. Location: Middle Tennessee State University, Murfreesboro, TN, 9:30-11:30 am.

February 10: Causes of recent unexpected revenue growth. Witnesses: David Wyss, Chief Economist, Standard & Poor's DRI; James Glassman, Vice President, Chase Securities, Inc.; John G. Wilkins, National Director, Tax Policy Economics, Coopers and Lybrand. Dirksen 608, 10:00 am.


February 11: Federalism & Funding Issues. Witnesses: Ray Scheppach, Director, National Governor’s Association; William Pound, Director, National Conference of State Legislatures, Larry Naake, Director, National Association of Counties; and National League of Cities. Dirksen 608, 10:00 am.

February 11: Education Task Force Meeting. Our Struggling Public School System: Ideas for Reform. Dirksen 608, 2:00 pm.

Part I: Education Reform; Witness: Dr. Chester E. Finn, Jr., Former Assistant Secretary of Education John M. Olin Fellow at the Hudson Institute; Mr. Chris Whittle, Founder and President of the Edison Project, Lisa Keegan, State Superintendent of Public Education State of Arizona; Mr. David Brennan, Founder of the Hope Academies, Cleveland, Ohio;

Part II: Reform of Federal Education Establishment; Witness: Susan S. Westin, PhD, Associate Director, Advanced Studies and Evaluation Methodology GAO; Bill Hansen, Former Assistant Secretary of Education.

February 12: Unfunded Mandates Task Force Meeting. Dirksen 608, 2:00pm. Witnesses: Representative Rob Portman Representative Gary Condit; James Blum, Deputy Director, Congressional Budget Office; R. Bruce Josten, Executive Vice President, U.S. Chamber of Commerce; John Nicholson, NFIB member, Company Flowers; Sharon Buccino, Legislative Counsel, Natural Resources Defense Council .

 EDITOR’S NOTE: One demographer predicts babies born today may live to 95 to 100 years of age-- on average. So Best wishes for the next 100 years to our newest Budget Baby- Jack Reidy, born this week to Cheri and Mike Reidy. (SOURCE: J.W. Vaupel, Odense University Medical School, Denmark)